

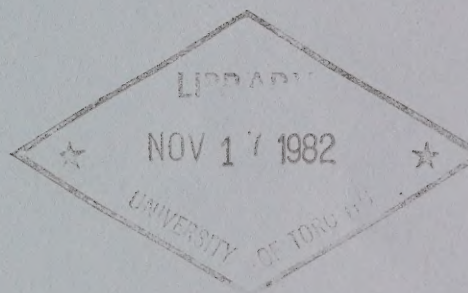
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NATIONAL ENERGY BOARD
REASONS FOR DECISION

On Review of its Decision of the Application
under Part IV of the National Energy Board Act
and under Part II of the Northern Pipeline Act
(Toll Application)

of



Foothills Pipe Lines (Yukon) Ltd.

October 1982

NATIONAL ENERGY BOARD


REASONS FOR DECISION

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National Energy Board

IN THE MATTER OF the National Energy Board Act
and the Northern Pipeline Act and the Regulations
made thereunder;

AND IN THE MATTER OF an application by Foothills
Pipe Lines (Yukon) Ltd., for certain orders
respecting its tolls pursuant to Part IV of the
National Energy Board Act and Part II of the
Northern Pipeline Act, filed with the Board under
File No. 1562-F6-3.

HEARD at Ottawa, Ontario on 14 October 1982.

B E F O R E:

| | | |
|-------------|---|------------------|
| R.F. Brooks |) | Presiding Member |
| J.L. Trudel |) | Member |
| R.B. Horner |) | Member |

APPEARANCES:

| | | |
|-------------------|---|--|
| J. Lutes |) | Foothills Pipe Lines (Yukon) Ltd. |
| A.S. Hollingworth |) | Alberta Petroleum Marketing Commission |
| R.B. Cohen |) | TransCanada PipeLines Limited |
| B. Patterson |) | Union Gas Limited |
| R.G. Makuch |) | Board Counsel |

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ABBREVIATIONS

| | |
|---------------------------------------|--|
| "AFUDC" | Allowance for Funds Used During Construction |
| "APMC" | Alberta Petroleum Marketing Commission |
| "Associated Export Licences" | Those licences which authorize the export of Canadian gas through the prebuild system |
| "Board" | National Energy Board |
| "Dempster Link" or "Dempster Lateral" | A pipeline for the transmission of Delta gas from the Tannunuk area in the Northwest Territories to a point in the mainline at or near Whitehorse in the Yukon Territory, on a route generally parallel to the Dempster Highway and the Klondike Highway |
| July 1979 Decision | "National Energy Board Reasons for Decision in the Matter of Phase I of a Public Hearing Respecting the Tariffs and Tolls to be Charged, the Financing of the Pipeline and Other Related Matters of Foothills Pipe Lines (Yukon) Ltd., July 1979". |
| November 1979 Decision | "National Energy Board Reasons for Decision in the Matter of Phase III of a Public Hearing Respecting the Tariffs and Tolls to be Charged, the Financing of the Pipeline and Other Related Matters of Foothills Pipe Lines (Yukon) Ltd., November 1979". |
| May 1980 Decision | "National Energy Board Reasons for Decision in the Matter of Phase IV(b) of a Public Hearing Respecting the Tariffs and Tolls to be Charged, the Financing of the Pipeline and Other Related Matters of Foothills Pipe Lines (Yukon) Ltd., May 1980." |
| June 1980 Decision | "National Energy Board Reasons for Decision in the Matter of a Public Hearing Respecting Tariffs and Tolls to be Charged, the Financing of the Pipeline, and Other Related Matters of Foothills Pipe Lines (Yukon) Ltd., June 1980." |
| August 1981 Decision | "National Energy Board Reasons for Decision in the Matter of a Public Hearing Respecting the Tolls to be Charged by Foothills Pipe Lines (Yukon) Ltd. in the Operation of its Prebuild Facilities, and Other Related Matters, August 1981." |

| | |
|---|--|
| August 1982 Decision | "National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the National Energy Board Act and under Part II of the Northern Pipeline Act (Toll Application) of Foothills Pipe Lines (Yukon) Ltd., August 1982." |
| "Foothills (Yukon)", "the Company" or "the Applicant" | Foothills Pipe Lines (Yukon) Ltd. is the parent company responsible for the Canadian portion of the Alaska Highway Natural Gas Pipeline Project. Foothills (Yukon) is currently sponsored 50 percent each by NOVA and Westcoast. The ownership of the pipeline is segmented into six federally- incorporated subsidiaries. |
| "Foothills (North Yukon)" | Foothills Pipe Lines (North Yukon) Ltd. will own, operate and manage Zone 10, being part of the proposed Dempster Link, running from the Mackenzie Delta gas fields in the Mackenzie Delta, N.W.T. to a point near the junction of the Klondike and Dempster Highways just west of Dawson, Yukon Territory. |
| "Foothills (South Yukon)" | Foothills Pipe Lines (South Yukon) Ltd. will own, operate and manage, in addition to Zones 1 and 2 of the Alaska Highway Natural Gas Pipeline Project through the southern Yukon, Zone 11, being part of the proposed Dempster Link, running from a point near the junction of the Klondike and Dempster Highways near Dawson to the connecting point with the mainline at or near Whitehorse. |
| Phase I | The portions of the Alaska Highway Natural Gas Pipeline Project which have been prebuilt to transmit natural gas of Canadian origin before the pipeline is placed in service for the transmission of natural gas of Alaskan origin, being all or part of facilities in Zones 6 to 9. |
| Phase II | The remaining portions of the Alaska Highway Natural Gas Pipeline Project which, when combined with the prebuilt facilities, will constitute the complete mainline for the transmission of natural gas of Alaskan origin, being the facilities in Zones 1 to 5, and incremental facilities in Zones 6 to 9. |

INTRODUCTION AND BACKGROUND

On application dated 7 May 1982 from Foothills Pipe Lines (Yukon) Ltd., the Board held a public hearing in late June of this year to hear evidence and submissions from the Company and interested parties on a number of issues pertaining to the tolls to be charged pursuant to Part IV of the National Energy Board Act and Part II of the Northern Pipeline Act in the operation of the Western and Eastern Leg prebuilt facilities. The Western Leg had commenced operation on 1 October 1981 and the Eastern Leg was scheduled to commence operation on 1 September 1982.

Among the matters included in the Company's application and considered during the hearing was a request for approval of a reduction in the rate of depreciation recovered under the tariff to four percent per annum and approval for rate base purposes of preliminary expenses incurred in 1981. Approval was also requested to include in the Phase I tariff certain charges pertaining to pre-permit and preliminary expenses incurred on the mainline. The Board's Reasons for Decision on these and other matters arising during the hearing was issued in August 1982 and was accompanied by Board Order No. TG-4-82. Under that Order, the Company was required to file certain materials with the Board for its approval.

By letter dated 23 September 1982, Foothills (Yukon) applied to the Board for a review and variance of Order No. TG-4-82 in respect of the wording of its decision on the application for a change in the rate of depreciation.

In the meantime, upon receipt of a filing from the Company on 16 September 1982, pursuant to paragraph 3(j) of Board Order No. TG-4-82, the Board became aware that it would require additional information before finalizing its decision on the acceptability for rate base purposes of the AFUDC component of preliminary expenditures incurred in 1981, and on the acceptability of including costs incurred on the Dempster Lateral in the actual amount of the pre-permit and preliminary expenses, for which a special charge was to be included in the Phase I tariff.

In order to provide Foothills (Yukon) and the intervenors with an opportunity to present further information and make further submissions in respect of these specific matters, i.e. the Company's application for review and the other items detailed above, the Board issued Order No. RH-R-5-82 to re-open the hearing for one day on 14 October 1982.

VARIATION OF DECISION ON DEPRECIATION

The change in the rates of depreciation as applied for in May 1982 would have amended the approved rates of depreciation to provide that such rates would be not more than four percent during each year until such time as there were four years remaining in the term of the existing associated export licences. That application then requested that over the last four years of the existing export licences the rates of depreciation would be increased by means of a "basket clause" to provide that the undepreciated facilities in Zones 6, 7 and 8 would be fully depreciated and the undepreciated facilities in Zone 9 would be reduced to 50 percent of their original cost. It had previously been established that the depreciation rates, as approved, provided the credit underpinning for the financing of the pipeline. The Company had entered into negotiations with its lenders, a consortium of banks of which the Canadian Imperial Bank of Commerce was the leader, to amend the loan agreement to accommodate the lower cash flow under the proposed depreciation schedule.

In its August 1982 Decision, at page 32, the Board acknowledged that the Company had requested that the "basket clause" come into effect four years before the termination of the export licences for which the facilities are being utilized. However, in its decision, the Board took into consideration the possible extension of export licences which had been discussed during the hearing, and at page 34 ruled as follows:

"The Board approves a four percent depreciation rate for Zones 6, 7, 8 and 9 and a basket clause to be triggered four years before the expiry of the term of existing or future export licences issued to Foothills (Yukon)'s shippers." (underline added)

Similarly, in paragraph 5 of Board Order No. TG-4-82, the Board ordered that:

"Foothills (Yukon) shall charge depreciation expense in respect of Zones 6, 7, 8 and 9, at a rate of four percent per annum, until such time as existing or future export licences have a remaining term of four years." (underline added).

The Company, in its application for review and variation, specifically requested that the Board amend the Order by deleting the words "or future" from paragraph 5, and in addition, requested a slight addition to paragraph 6 to eliminate a conflict in wording which existed between it and paragraph 5.

During the re-hearing, it became apparent that the status of the negotiations with the banks for rescheduling of the debt repayment was not as well established as had been earlier understood. The introduction by the Board of the term "or future export licences" into its decision and Order led to the banks' statement, as contained in a letter from the Canadian Imperial Bank of Commerce to the Company dated 9 September 1982, that they were unwilling at this time to amend their repayment schedule to reflect a depreciation policy based on "existing or future" gas export licences. However, they went on to state:

"We continue to be willing to amend our repayment schedule based on a depreciation policy that reflects existing gas export permits, and in addition, would be willing to discuss further amendments to the Loan Agreement at the time or times that additional gas export permits are authorized."

In argument, Counsel for APMC suggested that, if the Board saw fit to grant the amendment to the Order as applied for, it should condition its decision by requiring the Company, in the event that further export licences are authorized, to provide, by certain specific dates, progress reports on the status of its negotiations with the banks. However, the Board notes that the Company has already demonstrated its willingness to pursue the negotiation of lower depreciation rates to be recovered under the tariff, both through its original application and its current undertaking to continue discussions with the banks with respect to the impact of future export licences on financing. The Company has already agreed to provide, and the Board will expect, progress reports on the status of such negotiations.

Decision

On the basis of the evidence submitted, the Board has decided to amend Order No. TG-4-82 by deleting the words "or future" from paragraph 5 and adding to paragraph 6, after the words "Notwithstanding paragraph 5 of this Order", the words "until such time as the existing export licences have a remaining term of four years."

AFUDC COMPONENT OF PRELIMINARY EXPENDITURES - 1981

In its application for approval for rate base purposes of preliminary expenditures incurred in 1981, Foothills (Yukon) included a component for AFUDC which had been calculated at rates equivalent to the non-incentive rates under the Incentive Rate of Return Scheme. The rates used ranged from 17.50 to 17.75 percent per annum compounded monthly.

To finalize the amount to be approved for inclusion in rate base, Board Order No. RH-R-5-82, paragraph 2 of Appendix 1, ordered the Applicant, amongst other things, to provide specific details on:

- a) the actual cost of funding incurred by these companies in respect of the costs being rolled down in 1981; and,
- b) the rationale or basis for calculating AFUDC as defined in the Incentive Rate of Return Scheme, Appendix B, November 1979 Decision and Order No. TG-5-81, designed to apply to a pipeline under construction funded through debt, preferred shares and equity.

The Applicant did not supply details requested in paragraph 2(a) of Order No. RH-R-5-82 dealing with actual cost of funding. Witnesses for the Applicant submitted that the Board should consider the business and financial risks of Foothills (Yukon) on a stand-alone basis to determine its cost of capital and, consequently, the AFUDC rate to be applied to the Phase II preliminary expenditures incurred in 1981.

In addition, the Applicant emphasized certain inequities associated with the use of the sponsors' rate of return on rate base for the purpose of determining an AFUDC rate for Foothills (Yukon) Phase II preliminary expenditures. Those inequities were said to be:

- a) sponsors have different risks and if there were a sponsor whose cost of capital was related to a high risk non-utility activity, the Board would probably deem it inappropriate that such a sponsor's cost of capital be used as a basis for determining appropriate AFUDC rates for Foothills (Yukon); and
- b) the sponsors' older debt, which has a lower embedded cost, has been "deemed" applicable to their utility operations. Therefore, use of the sponsors' rate of return on rate base, which incorporates such lower debt cost, would not reflect the cost of their non-utility activities, which includes their investments and advances to Foothills (Yukon).

The Applicant's rationale for using the non-incentive rates, 17.50 percent to 17.75 percent, to calculate the 1981 AFUDC on Phase II preliminary expenditures was based on an interpretation of the Board's August 1981 Decision, page 5-4, which stated:

"For the period after 31 July 1980, any expenditures under the Agency Agreements, until they have been 'rolled down', will be allowed an AFUDC rate equal to the sponsor companies' rate of return on rate base. For the same period, AFUDC will be calculated on expenditures incurred by Foothills (Yukon) and its subsidiaries, including costs which have been 'rolled down', at actual cost of debt of the Foothills subsidiary companies plus a return at the non-incentive rate on equity funds used."

The Applicant also emphasized that the risks associated with the Phase II expenditures were greater than those related to the preliminary expenditures for Phase I construction. The Applicant's expert witness recommended an AFUDC rate in the range of 16.0 to 17.50 percent, with a best "point estimate" at the top end of the range at 17.50 percent. The rate of 16.0 percent is equal to the operating phase rate as previously determined by the Board.

Counsel for APMC established that the Phase II preliminary expenditures were financed by the sponsor companies and questioned the relevance of using the cost of preferred shares in determining the AFUDC rate; the preferred shares were simply a device to effect a tax-free roll over for the sponsors. APMC urged that the Board's decision should conform to its Gas Pipe Line Uniform Accounting Regulations, and the rate used should be based on a reasonable allowance for the use of funds. APMC recommended that a reasonable allowance should be the sponsor companies' return on rate base and it noted that Foothills (Yukon) itself, in earlier proceedings before the Board, had suggested that method.

Decision

Having considered its past decisions and the evidence submitted in this hearing, the Board continues to believe the rate of return on rate base of the sponsor companies is a reasonable basis for determining the amount of AFUDC for inclusion in rate base. However, the Board considers it appropriate to add to the sponsors' rates of return on rate base the project risk premiums as specified in the Board's June 1980 Decision.

The resultant rates, with the monthly compounding effect, will range from approximately 13.9 to 16.1 percent depending on the sponsor company and the zone with which the expenditures are associated.

PRELIMINARY EXPENDITURES - DEMPSTER LATERAL

In its application of May 1982, Foothills (Yukon) requested an order:

"to approve for inclusion in the cost of service for Phase I, commencing September 1982 of an amount for amortization of, and return on, expenditures which have previously been approved by the Board for inclusion in rate base being the pre-permit costs and allocated Zones 1 to 5 costs."

In its August 1982 Decision, the Board, commencing at page 27, concluded that the prebuild tariff should include some charges with respect to the preliminary expenditures. The Board approved rates for amortization of the preliminary expenditures and for calculation of a return on the unamortized balance. However, the actual amount on which these rates were to be applied could not be finalized until the Board had received and reviewed the filings required under Board Order No. TG-4-82.

It was only on receipt of the filing pursuant to paragraph 3(j) of that Order that the Board became aware that included in "the pre-permit costs and allocated Zones 1 to 5 costs" was an amount of approximately \$5 million incurred on the Dempster Lateral. These costs had been incurred in compliance with the terms of The Dempster Link Agreement, whereby Foothills (Yukon), its subsidiaries and sponsors, gave an undertaking to the Federal Government to conduct feasibility studies and to apply to the Board by 1 July 1979 for issuance of a certificate to construct the Dempster Link.

In its July 1979 Decision, at page 38, the Board, in reviewing preliminary expenditures incurred prior to 1979, specifically directed that:

"Cost of service charges related to the preliminary expenditures of \$2.2 million in relation to the Dempster Lateral (Zones 10 and 11), should not be allocated to the main pipeline at this time, pending disposition of the application to build the Dempster Lateral."

With the addition of AFUDC since then, the original amount has increased to approximately \$3 million. All costs incurred on the Dempster Lateral subsequent to 1978 of approximately \$2 million were recorded separately as related to Foothills (North Yukon), but the record of the earlier expenditures, including AFUDC, were maintained by Foothills (Yukon).

The Company was offered, through the re-opened hearing, an opportunity to establish whether circumstances had arisen since 1979 which would warrant a change in the Board's decision of that year in respect of costs incurred on the Dempster Lateral. In evidence, the Company emphasized that its undertaking to apply to build the Dempster Lateral was a specific pre-condition of the granting of the certificate to build the mainline, however, the Company identified no significant changes in circumstances since 1979.

Decision

Since the application to build the Dempster Lateral is still before the Board and has not yet been disposed of, and since the hearing brought forth no evidence of new or changed circumstances, the Board has decided that costs associated with the Dempster Lateral, including AFUDC thereon, should be excluded from the mainline pre-permit or preliminary expenditures. Therefore, the Board requires Foothills (Yukon) to delete from the mainline preliminary expenditures and the computation of the Special Charge - Phase II Preliminary Expenditures all costs associated with the Dempster Lateral.

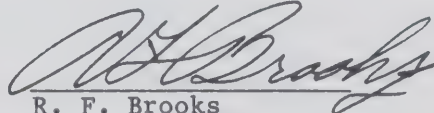
Notwithstanding the directive of the Board in its May 1980 Decision, which reads as follows:

"...the Board directs that the portion of the allowance (AFUDC) pertaining to 1978 and prior-year expenditures, including the compounding effect, be held in the rate base of Foothills (Yukon).";

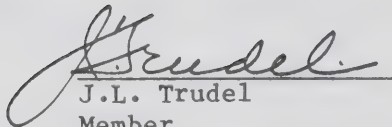
the Board further requires that all Dempster Lateral costs, including AFUDC, be recorded as either Zone 10 or Zone 11 costs and be maintained on the records of Foothills (North Yukon) and Foothills (South Yukon) as per Annex II to Schedule I of the Northern Pipeline Act.

DISPOSITION

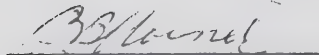
In the preceding pages, the Board has recorded a number of decisions. The foregoing, together with Order No. AO-1-TG-4-82, shown as Appendix III hereto, constitute our disposition in this matter.



R. F. Brooks
Presiding Member

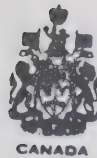


J.L. Trudel
Member



R.B. Horner
Member

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. RH-R-5-82

IN THE MATTER OF the National Energy Board Act
and the Northern Pipeline Act and the
Regulations made thereunder;

AND IN THE MATTER OF an application by
Foothills Pipe Lines (Yukon) Ltd.,
(hereinafter called "the Applicant", or
"Foothills (Yukon)") for certain orders
respecting its tolls pursuant to Part IV of
the National Energy Board Act and Part II of
the Northern Pipeline Act, filed with the
Board under File No. 1562-F6-3.

B E F O R E the Board on Wednesday, the 22nd day of September
1982.

UPON a public hearing having been held in the City of
Ottawa, in the Province of Ontario, on the 28th, 29th and 30th
days of June, and the 6th day of July, 1982, wherein evidence,
submissions and argument were heard respecting the Application by
Foothills Pipe Lines (Yukon) Ltd., dated 7 May 1982, for certain
orders respecting its tolls pursuant to Part IV of the National
Energy Board Act and Part II of the Northern Pipeline Act;

AND UPON the National Energy Board having reviewed the
evidence, submissions and argument made on behalf of the Applicant
and intervenors at the public hearing;

AND UPON the National Energy Board having issued its
Reasons for Decision dated August 1982 and Board Order No. TG-4-82;

AND UPON the Applicant having filed with the Board for
its approval, certain information required pursuant to paragraph
3(j) of Board Order No. TG-4-82;

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AND UPON it appearing to the National Energy Board that certain additional information is necessary in order that the Board may reach a decision on this matter;

AND UPON the Applicant having filed an application dated 15 September 1982, with the National Energy Board pursuant to section 17 of the National Energy Board Act, to vary its decision dated August, 1982 and for an amendment to Board Order No. TG-4-82;

AND UPON it appearing desirable to the National Energy Board to reopen the said public hearing to rehear certain aspects of the original application and to receive additional information and hear further submissions with respect to the matters set forth in Appendix I to this Order;

IT IS ORDERED THAT:

1. The public hearing held in the City of Ottawa, in the Province of Ontario, on the 28th, 29th and 30th days of June, and the 6th day of July 1982, shall be reopened to rehear evidence and submissions with respect to subject matters set forth in Appendix I to this Order.

2. The rehearing shall commence on Thursday, the 14th day of October, 1982, at 9:30 a.m. local time in the Hearing Room of the National Energy Board at 473 Albert Street, in the City of Ottawa, in the Province of Ontario.

3. The Applicant shall provide witnesses at the rehearing to speak to those matters set forth in Appendix I to this Order.

4. The mailing of this Order by the Secretary of the Board to the Applicant and the intervenors of record, shall be deemed

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the giving of notice to persons indicated by the Board as persons to whom notice of the application shall be given by the Applicant, within the meaning of subsection 10(3) of the National Energy Board Rules of Practice and Procedure.

Dated at the City of Ottawa, in the Province of Ontario, this 22nd day of September, 1982.

NATIONAL ENERGY BOARD



G. Yorke Slader,
Secretary

The Applicant shall provide information as to:

1.a) Preliminary expenditures incurred on the Dempster Lateral as recorded on the books of Foothills Pipe Lines (North Yukon) Ltd., Foothills Pipe Lines (South Yukon) Ltd., and Foothills Pipe Lines (Yukon) Ltd. in respect of Zones 10 and 11 as described in Annex II, Schedule I to the Northern Pipeline Act.

b) The justification for including these costs associated with the Dempster Lateral into mainline preliminary expenditures in light of the Board's decision found at page 38 of the Reasons for Decision dated July 1979 in Phase I of hearing RH-2-79:

"Cost of service charges related to the preliminary expenditures of \$2.2 million in relation to the Dempster Lateral (Zones 10 and 11), should not be allocated to the main pipeline at this time, pending disposition of the application to build the Dempster Lateral."

2. Details pertaining to the calculation of AFUDC for the year 1981 on preliminary expenditures including transactions pertaining to the "roll down" in 1981 of costs incurred under the Agency Agreement from the books of the sponsor companies, Westcoast Transmission Company Limited, NOVA, An Alberta Corporation and Alberta Natural Gas Company Ltd., to the books of Foothills (Yukon) and its subsidiaries.

Foothills shall provide specific details on:

a) the actual cost of funding incurred by these companies in respect of the costs being rolled down in 1981; and,

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- b) the rationale or basis for calculating AFUDC as defined in the Incentive Rate of Return Scheme, Appendix B, November 1979 Reasons for Decision and TG-5-81, designed to apply to a pipeline under construction funded through debt, preferred shares and equity.

3. The Applicant shall also be prepared to speak on the details of its application dated 15 September 1982 to vary TG-4-82.

ORDER NO. TG-4-82

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder, and of the Northern Pipeline Act; and

IN THE MATTER OF the tariff and tolls to be charged by Foothills Pipe Lines (Yukon) Ltd. (hereinafter referred to as "Foothills (Yukon)") in the operation of its prebuild facilities in Zones 6 to 9, and other related matters, File No. 1562-F6-3.

B E F O R E the Board on Thursday, the 12th day of August 1982.

WHEREAS Foothills (Yukon) filed with the National Energy Board (hereinafter referred to as "the Board") an application dated the 7th day of May 1982, for an Order or Orders respecting its tolls for the prebuild facilities in Zones 6, 7, 8 and 9;

AND WHEREAS the Board issued Order No. RH-5-82, dated the 13th day of May 1982, setting the application down for a public hearing, together with various matters specified in the Order related to the tariffs and tolls to be charged by Foothills (Yukon) in respect of the transmission of natural gas through the prebuild facilities in Zones 6 to 9.

AND WHEREAS Foothills (Yukon) filed a supplemental application dated the 18th day of May 1982 respecting its tolls;

AND WHEREAS a public hearing was held in the City of Ottawa, in the Province of Ontario, commencing on the 28th day of June 1982, at which the Board heard evidence and submissions of Foothills (Yukon) and other interested parties;

AND WHEREAS the Board has, following a public hearing held pursuant to Order No. RH-5-82, dated the 13th day of May 1982,

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at which all interested parties were heard, made certain determinations respecting the tariff and tolls to be charged by Foothills (Yukon) in the operation of the prebuild facilities;

AND WHEREAS the Board, having considered the evidence and submissions, is satisfied that the tolls to be charged by Foothills (Yukon) in accordance with this Order are just and reasonable;
IT IS ORDERED THAT:

1. Foothills (Yukon) and its subsidiaries shall, effective on the day of commencement of operation of the prebuild facilities in Zones 6 and 9, and effective on the 1st day of September 1982 for Zones 7 and 8, charge in respect of natural gas transmitted by it through the said facilities in each month only those tolls for each such month as are determined in accordance with this Order and with:

- (a) Order No. TG-1-79, as amended by Order No. AO-1-TG-1-79, and Order No. TG-4-79, Order No. TG-2-81, and Order No. TG-5-81 as amended by Order No. AO-1-TG-5-81;
- (b) The Board's Reasons for Decision dated August 1981, resulting from the public hearing held under Order No. RH-3-81;
- (c) The Board's Reasons for Decision dated July, October, and November 1979, and March, May and June 1980, resulting from the public hearing held under Order No. RH-2-79;

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(d) The Board's Reasons for Decision dated August 1982, resulting from the public hearing held under Order No. RH-5-82.

2. In this Order:

"Foothills (Alta.)" means Foothills Pipe Lines (Alta.)

Ltd., a subsidiary of Foothills (Yukon), which will own, operate and manage the prebuild facilities in the province of Alberta;

"Foothills (South B.C.)" means Foothills Pipe Lines (South B.C.) Ltd., a subsidiary of Foothills (Yukon), which will own, operate, and manage the prebuild facilities in the province of British Columbia;

"Foothills (Sask.)" means Foothills Pipe Lines (Sask.)

Ltd., which will own, operate and manage the prebuild facilities in the province of Saskatchewan;

"prebuild facilities" means the portion of the Foothills (Yukon) pipeline built to transmit for export natural gas of Canadian origin before the remainder of the pipeline is placed in service for the transmission of Alaskan gas.

3. Foothills (Yukon) shall recalculate, in accordance with this Order and the Reasons for Decision dated August 1982, referred to in paragraph 1, and file for the approval of the Board:

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- (a) A revision of the Final Design Cost Estimates for prebuild facilities in Zone 8 incorporating the adjustment as approved;
- (b) A revision of the Final Design Cost Estimates for prebuild facilities in Zones 6 and 9 incorporating the adjustments as approved and reflecting the correct application of the GNP deflator and a recalculation of PFUDC;
- (c) A revised estimate of the one-time adjustment to rate base of Foothills (Alta.) and to the rate base of Foothills (South B.C.) for prebuild facilities in Zones 7 and 8 respectively, following the procedures set out in Order No. TG-5-81 as amended by Order No. AO-1-TG-5-81 incorporating the revised estimates described in subparagraph (a), the correct application of the GNP deflator, and the reduction in Zone 8 rate base as per the Reasons for Decision dated August 1982;
- (d) A revised estimate of the one-time adjustment to rate base of Foothills (Alta.) for prebuild facilities in Zone 6 reflecting the reduction in the provisional rate base as per the Reasons for Decision dated August 1982;
- (e) The rate base of Foothills (Alta.) and the rate base of Foothills (South B.C.) for prebuild facilities in Zones 7 and 8 respectively, calculated as of

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1 September 1982 and incorporating the recalculated adjustments described in subparagraphs (a) and (c), and allocations of furniture, equipment and leasehold improvements as per the Reasons for Decision dated August 1982;

- (f) The rate base of Foothills (Alta.) and the rate base of Foothills (Sask.) for prebuild facilities in Zones 6 and 9 respectively, calculated as of the expected date of commencement of operation of the facilities in those zones, and incorporating the recalculated adjustments described in subparagraphs (b) and (d), and allocations of furniture, equipment and leasehold improvements as per the Reasons for Decision dated August 1982;
- (g) In respect of amounts approved for recovery in the Cost of Service under the Phase I Tariff arising from the mainline preliminary expenditures, details specifying and illustrating how the amount to be amortized and the revenue generated therefrom will be accounted for on the books of Foothills (Yukon) and its subsidiaries;
- (h) The estimated total cost of service for 1982, calculated as of 1 September 1982, applicable to the transportation of natural gas in each of Zones 7 and 8, and incorporating a return on equity of 16 percent,

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income taxes calculated on a normalized basis,
amortization of and return on mainline preliminary
expenditures as per paragraph 8 and depreciation
calculated as per paragraph 5;

- (i) The estimated total cost of service for 1982,
calculated as of the expected date of commencement of
operation of the facilities in each zone, applicable
to the transportation of natural gas in each of Zones
6 and 9, and incorporating a return on equity of 16
percent, income taxes calculated on a normalized
basis, depreciation as per paragraph 5 and
amortization of and return on mainline preliminary
expenditures as per paragraph 8;
- (j) With respect to the "roll down" of preliminary
mainline expenditures up to 31 December 1981 from the
sponsors to Foothills (Yukon) and its subsidiaries, an
illustration of the transaction and the accounting
entries, and a copy of any amendments to the Agency
Agreement;
- (k) A letter of commitment to the Canadian Government
indicating that a repayment of amounts received under
the Phase I Tariff in respect of the mainline
preliminary expenditures will be refunded to the
Alberta producers when Alaskan gas flows through the
Foothills (Yukon) system;

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(1) Revised tariff sheets incorporating:

- (i) the provision for recovery under the Cost of Service of amounts as approved in respect of the Special Charge - Phase II Preliminary Expenditures, as per paragraphs 8, 9 and 10
- (ii) the change in depreciation rates as per paragraphs 5 and 6, and
- (iii) the changes in interest rate as per paragraph 11.

4. For the purpose of determining the tolls to be charged in respect of the transmission of natural gas through the prebuild facilities in each month, Foothills (Yukon) shall calculate its cost of service for each such month in accordance with the procedure set out in the Gas Transportation Tariff - Phase I, modified as necessary in accordance with this Order, and incorporating:

- (a) a return on equity of 16 percent,
- (b) taxes calculated on a normalized basis, and
- (c) where applicable, the recalculated amounts approved by the Board pursuant to paragraph 3.

5. Foothills (Yukon) shall charge depreciation expense in respect of Zones 6, 7, 8 and 9, at a rate of four percent per annum, until such time as existing or future export licences have a remaining term of four years. Over those last four years, Foothills (Yukon) and its subsidiaries are authorized to fully depreciate the undepreciated prebuild facilities in Zones 6, 7 and 8, and to reduce the undepreciated prebuild facilities in Zone 9 to at least 50

percent of capital cost. Thereafter, for Zone 9 the remaining 50 percent shall be depreciated on the basis of volumes of throughput in accordance with the Board's Reasons for Decision dated March 1980.

6. Notwithstanding paragraph 5 of this Order, no depreciation charges shall be levied under the Cost of Service for Zones 7 and 8 until such time as the depreciation previously charged in these zones equals the depreciation which would have been charged had the four percent depreciation rate been in effect from the date the facilities went into service.

7. Prior Board approval is required for any financial fees associated with the renegotiation or rescheduling of debt repayment, other than those previously approved in the August 1982 or other Board Reasons for Decision.

8. Upon filing in a matter satisfactory to the Board, the items indicated in paragraph 3, subsections (g) and (j) to (l)(i) inclusive, Foothills (Yukon) may include in the prebuild cost of service for Zones 6 through 9, amounts related to the amortization of and return on the mainline preliminary expenditures up to 31 December 1981. Such amounts are not to exceed four percent for amortization of the amount approved by the Board, plus 16.0 percent of the unamortized balance of the same amount. Furthermore, the provision for income taxes collected in the prebuild cost of service is not to increase as a result of inclusion of these amounts related to the mainline preliminary expenditures, regardless of the method of establishing the income tax provision (i.e., the normalized or

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flow-through method). Amortization of and return on the mainline preliminary expenditures is to cease on 1 November 1988, unless otherwise approved by the Board.

9. The amount referred to in paragraph 8 shall be recorded in the books of Foothills (Yukon) in a subaccount of account 179 - Other Deferred Debits, established for that purpose.

10. Foothills (Yukon) shall retain Section 8.3 - Company's Administrative Charge of the Gas Transportation Tariff, Rate Schedule T-1, along with the method of allocation presently contained in Section 8.4(b). Sections dealing with the Special Charge - Phase II Preliminary Expenditures should be renumbered and reworded according to this Order and the August 1982 Reasons for Decision, and filed with the Board.

11. For all deferrals resulting from variances in operating and maintenance expenses or cost of service billings, the interest rate to be used, effective from 1 September 1982, will be the Canadian Imperial Bank of Commerce current prime lending rate. Tariff revisions should be filed accordingly including revisions to Section 5.7 of the tariff of each of the subsidiary companies.

12. Foothills (Yukon) shall revise its Gas Transportation Tariff-Phase I, in accordance with the Reasons for Decision dated August 1982, and wherever necessary, to make the said tariff calculations correspond to the calculations or methods of calculation referred to in this Order or in the Reasons for Decision

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referred to in paragraph 1 of this Order, and shall forthwith serve a copy of each page so revised on the Board, on every known shipper of natural gas through the prebuild facilities, and on each party to the public hearing held pursuant to RH-5-82.

13. In calculating the rate bases of Foothills (Alta.) and Foothills (Sask.) for each month, Foothills (Yukon) shall include as additions to rate base actual expenditures in the year 1982 on construction of prebuild facilities up to the limits of \$229,690,047 for Zone 6 and \$121,823,000 for Zone 9, and shall not include any expenditures in excess of those limits until the Board otherwise directs.

14. The approved budgets for Operating and Maintenance Expense for Foothills (Alta.) and Foothills (Sask.) in Zones 6 and 9, respectively, shall be one-fourth of \$599,900 and \$1,057,300 respectively, for each month or part thereof during which the pipeline is operated during 1982.

15. Foothills (Yukon) shall not include in the tolls to be charged any amounts on account of Operating and Maintenance Expenses which are in excess of the budgets approved in paragraph 14, until the Board otherwise directs.

16. Any provision of the Foothills (Yukon) tariff and tolls, or any portion thereof, that is contrary to any Order of the Board, or to any determination of the Board contained in any of the Reasons for Decision referred to in paragraph 1, is hereby disallowed effective on 1 September 1982.

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DATED at the City of Ottawa, in the Province of Ontario,
this 12th day of August, 1982.

NATIONAL ENERGY BOARD

A handwritten signature in dark ink, appearing to read "G. Yorke Slader", is written above a horizontal line.

G. Yorke Slader
Secretary

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. AO-1-TG-4-82

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder, and of the Northern Pipeline Act; and

IN THE MATTER OF the tariff and tolls to be charged by Foothills Pipe Lines (Yukon) Ltd. (hereinafter referred to as "Foothills (Yukon)") in the operation of its prebuild facilities in Zones 6 to 9, and other related matters, File No. 1562-F6-3.

B E F O R E the Board on Monday, the 25th day of October, 1982.

UPON the Board having by Order No. TG-4-82 and Interim Order No. TGI-1-82 prescribed the tolls Foothills (Yukon) may charge in respect of natural gas transmitted by it in each month through its prebuild facilities in Zones 6 to 9;

AND UPON Foothills (Yukon) having filed an application by letter dated 23 September 1982, with the National Energy Board pursuant to Section 17 of the National Energy Board Act, to vary its decision dated August, 1982 and for an amendment to Board Order No. TG-4-82;

AND UPON Foothills (Yukon) having filed with the Board for its approval, certain information required pursuant to paragraph 3(j) of Board Order No. TG-4-82;

AND UPON the Board having issued Order No. RH-R-5-82 dated the 22nd day of September, 1982 to re-open certain aspects of the original application and to receive additional information with respect to the matters set forth in Appendix I of that Order;

AND UPON the Board having held a public hearing at the City of Ottawa, in the Province of Ontario on the 14th day of October, 1982, to hear the evidence and submissions of Foothills (Yukon) and other interested parties;

AND UPON the Board being satisfied that the tolls to be charged by Foothills (Yukon) in accordance with this Order are just and reasonable;

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IT IS ORDERED THAT:

1. Paragraphs 5 and 6 of Board Order No. TG-4-82 be revoked and the following substituted therefor:

"5. Foothills (Yukon) shall charge depreciation expense in respect of Zones 6, 7, 8 and 9, at a rate of four percent per annum, until such time as existing export licences have a remaining term of four years. Over those last four years, Foothills (Yukon) and its subsidiaries are authorized to fully depreciate the undepreciated prebuild facilities in Zones 6, 7 and 8 and to reduce the undepreciated prebuild facilities in Zone 9 to at least 50 percent of capital cost. Thereafter for Zone 9 the remaining 50 percent shall be depreciated on the basis of volumes of throughput in accordance with the Board's Reasons for Decision dated March 1980."

"6. Notwithstanding paragraph 5 of this Order, until such time as the existing export licences have a remaining term of four years, no depreciation charges shall be levied under the Cost of Service for Zones 7 and 8 until such time as the depreciation previously charged in these zones equals the depreciation which would have been charged had the four percent depreciation rate been in effect from the date the facilities went into service.";

2. Order No. TG-4-82 be further amended by adding the following paragraphs thereto:

- "17. a) Foothills (Yukon) shall delete all costs associated with the Dempster Lateral from the mainline preliminary expenditures and the computation of the Special Charge - Phase II Preliminary Expenditures.
- b) All costs related to the Dempster Lateral, including AFUDC, shall be recorded as either Zone 10 or Zone 11 costs and shall be maintained on the records of Foothills (North Yukon) and Foothills (South Yukon) as per Annex II to Schedule I of the Northern Pipeline Act."

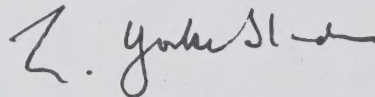
- "18. Foothills (Yukon) shall refile its calculations of AFUDC for 1981 on the Phase II preliminary expenditures and on the Dempster Lateral expenditures by applying the sponsor companies rate of return on rate base plus the project risk premium by zone as specified in the Board's June 1980 Reasons for Decision respecting Foothills (Yukon).";

AND IT IS FURTHER ORDERED THAT:

1. Foothills (Yukon) shall file, for the approval of the Board, the amended tolls for transportation through the prebuild facilities in Zones 6 to 9, for the period commencing 1 September 1982, calculated in accordance with Order No. TG-4-82, Interim Order No. TGI-1-82 and this Order.
2. Notwithstanding paragraph 2 of Interim Order No. TGI-1-82, the interim tolls ordered under paragraph 1 of that Order shall remain in effect until such time as the Board otherwise directs.

Dated at the City of Ottawa, in the Province of Ontario, this 25th day of October, 1982.

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

